



March 12, 2001

Mr. David Ikari, Chief
Dairy Marketing Branch
California Department of Food and Agriculture
1220 N Street, Room A-224
Sacramento, CA 95814

Re: Petition for Emergency Hearing to Consider Changes to the Northern and Southern California Stabilization and Marketing Plans – Class 4a Pricing Provisions

Dear Mr. Ikari:

California Dairies Inc. (CDI), on behalf of its producer-members, respectfully requests that the Department call a State Hearing on an emergency basis to consider making cost justified adjustments in the manufacturing allowances for Class 4a products to cover increased energy costs.

The cost of processing milk into butter and nonfat dry milk powder has increased dramatically over the past several months because of escalating energy costs. Most of the recent publicity has centered on electrical cost increases, but the heavy cost burden to date has been on natural gas. Even though natural gas cost has reduced from the ridiculously high levels reached in November and December, it remains considerably higher than last year and expects to remain so for the foreseeable future.

We are asking the Department to increase the manufacturing allowances used in the calculation of Class 4a milk prices based on the difference between the utility costs in the last manufacturing cost study using 1999 data and the most current available utilities cost data. CDI calculates that increase to be \$.002 cents per pound of butter and \$.028 cents per pound of nonfat powder. This would result in a change in the make allowance of butter from \$.097 [Section 300 (D)(1)] to \$.099 cents and for nonfat powder from \$.14 [Section 300 (D) (2)] to \$.168 cents.

The uncertainty and magnitude of future utility costs, especially electricity, requires constant monitoring and updating that needs to be incorporated more rapidly into our pricing system. We therefore propose that utility costs be indexed off actual average cost

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data of applicable plants and automatically adjusted into the Class 4a manufacturing allowances on preferably a quarterly basis. This would provide timely adjustments for producers and plants.

In addition, we recommend that the differentials specified in Sections 300 B (1), B (2), C (1) and C (2) be adjusted so the change in 4a make allowances are not carried over to Class 2 and Class 3 milk products which do not require the same level of energy requirements as Class 4a products.

California Dairies Inc. and its approximately 750 members urges the Department to call an emergency hearing to address this issue as soon as possible.

Respectfully submitted,

CALIFORNIA DAIRIES, INC.



Gary L. Korsmeier
Chief Executive Officer

Stabilization Plan Language Changes

Section 300. (D) The minimum prices to be paid for components used for Class 4a shall be computed as follows:

- (1) For all milk fat, not less than the price per pound computed by the formula using the simple average of the Grade AA butter price quotations for the last significant trading action for the sale, offer or bid of butter at the Chicago Mercantile Exchange, less a freight adjustment of four and five-tenths cents (\$0.045), less a manufacturing cost allowance of nine and nine-tenths cents (\$0.099), and the result multiplied by a yield factor of 1.2.
- (2) For all milk solids-not-fat, not less than the weighted average price per pound for all Grade A and extra grade non-fat dry milk for human consumption sold f.o.b. California manufacturing plants for the period beginning the 26th day of the previous month and concluding the 25th day of the current month, as reported by the California Department of Food and Agriculture for the month, less a manufacturing cost allowance of sixteen and eight-tenths cents (\$0.168), multiplied by a yield factor of ninety-nine hundredths (0.99).